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NEWSLETTER OF THE AREA PLANNING BD. OF PALM BEACH CO. 2300 PALM BEACH LAKES BLVD. WEST PALM BEACH, FL. 33409-3395

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SEMINAR ADDRESSES INDUSTRIAL DEVELOPMENT REVENUE BONDS

Industrial Development Revenue Bond (IDRB) financing was the subject of a recent seminar jointly sponsored by the Area Planning Board of Palm Beach County and the Palm Beach County Economic Council. Speakers addressing various aspects of the IDRB program met Friday, October 23, 1981, at the Jupiter Beach Hilton in Jupiter, Florida. An audience of over 70 individuals composed a diverse group representing both the public and private sectors.

Over 70 participants at the Seminar listen as eight experts discuss Industrial Development Revenue Bond Financing.

A morning session was devoted to an overview of the IDRB financing mechanism and the perspective of the bond broker. Also included was a presentation on the experiences of the Dade County Industrial Development Authority. An afternoon session provided the perspective of the banker, an industrial development revenue bond example and the experiences and requirements of Palm Beach County.

IDRB's comprise a financing mechanism which provides for the expansion of existing or the attraction of new industries through the sale of tax-free revenue bonds. IDRB financing does not constitute a debt, liability, obligation, or pledge of faith and credit for the issuing political subdivision. All expenses incurred and money advanced on behalf of any project by a jurisdiction are made payable only from the bond proceeds or from the lessee to the governmental entity.

LEGAL PERSPECTIVE

James J. Cooney Esq., of Squire, Sanders and Dempsey, was the opening speaker. He discussed industrial development bond financing in Florida and presented a summary of principal 1980 legislative changes. He noted that the IDRB financing mechanism has been available in Florida since 1969 through the enactment of the Florida Industrial Development Financing Act (Part II of Chapter 159 of the Florida Statutes). Mr. Cooney added that, in comparison to other states, industrial development bond financing activity in Florida has been relatively low.

As originally enacted in 1969, the Act limited eligible projects to those comprising "an industrial or manufacturing plant," including related incidentals. Since June 30, 1980, however, with the enactment of House Bill 1572, the scope of eligible projects has been substantially expanded. In addition to research and development parks and pollution control facilities, eligible projects now include agricultural processing and storage facilities; warehousing and distribution facilities; headquarters, tourism, convention, urban parking, trade center, health care and airport and port facilities. Commer-

cial facilities located in blighted areas and public lodging or restaurant facilities in support of one or more of the foregoing facility types are also allowable. The expansion of the scope of eligible projects, along with other amendments to the Act, is expected to significantly increase the use of industrial bond financing in Florida. A positive impact on economic development in Florida can, in turn, be anticipated.

John Cummings, Esq., also of Squire, Sanders and Dempsey, added to the legal perspective by discussing the impact of legislation at the federal level. In the wake of anticipated increases in bond financing in Florida, he noted, the federal government is preparing to curtail industrial bond financing. Mr. Cummings explained that the U.S. Treasury Department is reporting losses since more bond money is being issued than was previously anticipated. The Reagan administration, as a consequence, is preparing measures which will limit the size of individual bond issues as well as the overall volume of IDRB activity.

THE BOND BROKER PERSPECTIVE

Joe Wise, Vice President of the William R. Hough Co., provided a short history of industrial development revenue bonds. He noted that IDRB's got off to a slow start after first appearing in the mid 1950's. By the 1960's, however, many states had provided enabling legislation and IDRB's became a multi-billion dollar business. Mr. Wise added that it was in the wake of this substantial growth that the Internal Revenue Service and the U.S. Treasury Department first became aware of lost tax receipts from historically taxable corporate borrowers. Hence, unlimited IDRB issuances were essentially ended in 1968. Since 1968, congressional activity relative to IDRB's has centered on controlling both the size of individual issues and the overall volume of IDRB activity.

Mr. John W. Waechter, Vice-President/Controller, also of William R. Hough Co., provided information to distinguish the bond broker from the other principal parties of the IDRB process, the issuer and the borrower. He explained that the broker essentially serves as a mediator between the issuer and the borrower. When the issuer determines the amount of the bond issue and a bond resolution has been approved by a jurisdiction, the bond broker serves to market the bonds thereby making funds available for potential borrowers. The broker provides advisory and related services to both the issuer and the borrower.

THE DADE COUNTY EXPERIENCE

John Haley, Executive Director of the Dade County Industrial Development Authority (DCIDA), reported on their experience since the Authority become operational on March 21, 1978. Specific services provided by DCIDA include: (1) industrial client expansion/relocation assistance, (2) industrial development revenue bond financing, (3) general demographic and special socio-economic information service, (4) special business climate studies, (5) assistance in identifying and procuring work force, (6) federal financial referral assistance, (7) labor training assistance and (8) facilities development assistance. Mr. Haley noted that the IDRB program has had a positive impact on economic growth and development within the Dade County area.

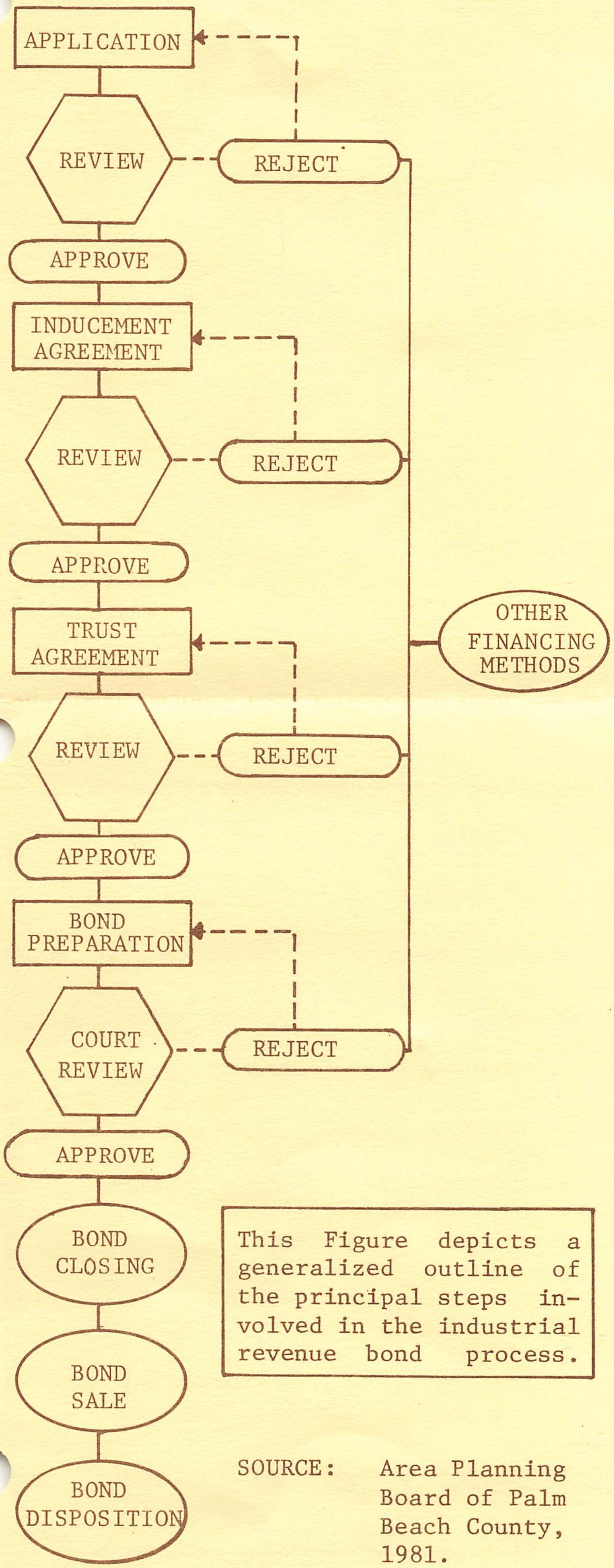
THE BANKER'S PERSPECTIVE

Richard Bratton, Vice-President of Southeast Bank, provided the bankers view on the industrial development revenue bond financing process. Commercial banks are principally involved in the establishment of the trust indenture. The trust indenture comprises an agreement between the bond issuer and a corporate trustee--the commercial bank. The trust indenture sets forth the basic structure of the bond issue and provides for the creation of a construction fund to which the bond proceeds are deposited. The trustee normally serves as the paying agent for the bonds and the borrower makes payments of principal and interest to the trustee rather than the issuing body.

AN INDUSTRIAL REVENUE BOND EXAMPLE

Norman McCann, President of Management Advisory and Research Center, Inc., provided a user or borrower perspective. He explained how IDRB's were utilized in

GENERALIZED BOND PROCESSING PROCEDURE



This Figure depicts a generalized outline of the principal steps involved in the industrial revenue bond process.

SOURCE: Area Planning Board of Palm Beach County, 1981.

the development of Glenbeigh, a local health care facility. The Glenbeigh project is unique since it is the first health care facility to successfully utilize the IDRB tool in Florida. Glenbeigh currently serves as a model health care facility proposal.

Because there is no established Industrial Development Authority in Palm Beach County, Mr. McCann termed his experience with the IDRB process as "provincial and tedious." In order to secure the approval of the County Commission, in the present atmosphere of fiscal conservatism, subsubstantial documentation and visual aids were needed. Charles Schoech, the County Attorney, later said that since Norman McCann and Glenbeigh "had done their homework," it took less than six months for the successful completion of the IDRB process. Groundbreaking for the first phase of Glenbeigh of the Palm Beaches is targeted for January, 1982.

PALM BEACH COUNTY EXPERIENCE

Charles F. Schoech, the County Attorney, spoke on the Palm Beach County experience. Three projects have been financed through County IDRB's. He estimated that an additional one-half million dollars in ad valorem taxes have been generated through these endeavors. He elaborated on the three primary elements of the County's review process: (1) contribution to the economic growth of the area, (2) the financial responsibility of the company and (3) the availability of utilities for the facility. Presently the IDRB process is totally handled by the County Attorney's office. In order to reduce the work load, an Industrial Development Advisory Board is being proposed to provide initial screening and review of proposed projects.

CONCLUSIONS

As financial markets have increasingly become adverse for business, the utilization of IDRB's has increased. The seminar provided an informative experience for potential users of this type of financing. This tool designed to encourage industrial development can ameliorate many of the obstacles faced by those interested in cultivating a broader based economy and enhancing economic development.

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